

Appendix A

Financial Statements

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT
NUCLEAR WASTE FUND**

Financial Statements

September 30, 1997 and 1996

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OVERVIEW

Reporting Entity

The Nuclear Waste Policy Act of 1982 (Public Law 97-425) established the Office of Civilian Radioactive Waste Management (OCRWM) within the Department of Energy. OCRWM's mission is to manage and dispose of the nation's spent nuclear fuel and high-level radioactive waste. The office provides leadership in developing and implementing strategies to accomplish this mission that assure public and worker health and safety, protect the environment, merit public confidence, and are economically viable.

The Nuclear Waste Policy Amendments Act of 1987 (Title V, Public Law 100-203) directed the Secretary of Energy to characterize only the Yucca Mountain site in Nevada to determine if it is suitable for a repository for spent nuclear fuel and high-level radioactive waste.

As of September 30, 1997, OCRWM employed 2,850 people. This included 202 OCRWM Federal staff, 18 Federal full-time equivalents (FTEs) at other DOE Headquarters offices, 5 Federal FTEs at DOE operations offices, 123 U.S. Geological Survey employees, and 2,502 contractor employees, including employees of national laboratories.

OCRWM is composed of a management center and two business centers organized to carry out two major projects.

The Yucca Mountain Site Characterization Project, located in Las Vegas, Nevada, oversees the scientific and technical investigation of Yucca Mountain, including:

- Addressing the major unresolved technical questions regarding the site;
- Completing a viability assessment of the Yucca Mountain site in 1998;
- Constructing and operating the exploratory studies facility;
- Addressing those repository and waste package design elements that are critical to determining the feasibility and performance of the repository and the engineered barrier system;
- Preparing a final environmental impact statement to accompany the Secretarial site recommendation, should the site be found suitable; and
- Preparing and submitting a license application for repository construction to the Nuclear Regulatory Commission, should the President recommend and the Congress approve the Yucca Mountain site.

The Waste Acceptance Storage and Transportation Project, located in Washington, D.C., is primarily responsible for:

- Conducting activities necessary for the Department to take title to and physical possession of spent nuclear fuel and high-level radioactive waste from owners and generators of these wastes;
- Developing a market-driven waste acceptance and transportation approach that relies on the private sector for implementation; and
- Conducting contingency planning and design activities related to interim storage that are consistent with Administration policy.

OCRWM's Program Management Center provides program integration and management support to the Director, OCRWM, and to the two business centers. The management center, comprised of the Office of Program Management and Administration in Washington, D.C., and the Office of Quality Assurance in Las Vegas, Nevada, is responsible for program planning and administration, program management, technical and regulatory integration, quality assurance, institutional activities, resources and information management, and international waste management activities.

Fiscal Year 1997 Technical Performance

In keeping with its schedule, OCRWM's tunnel boring machine completed excavation of the 8-kilometer (5-mile) main loop of the underground Exploratory Studies Facility (ESF) and emerged from the south portal at Yucca Mountain on April 25, 1997. This major milestone was accomplished with a safety record that exceeded mining industry performance. The ESF offers scientists direct access to the repository block and critical geologic features and enables them to conduct tests and collect important data on moisture movement and thermal stress effects within the host rock. Such data have confirmed earlier site characteristics determined through surface-based tests and they strengthen the technical ability to model natural processes and design a repository and waste package tailored to specific conditions at the site.

In its FY 1996 financial statements OCRWM established five technical performance measures for FY 1997, the following three of which were completed:

- Complete excavation of the Exploratory Studies Facility main 5-mile loop and scientific instrumentation alcoves to support studies for a viability assessment of the Yucca Mountain site in September 1998 and subsequent site suitability determination and licensing.
- Submit a topical safety analysis report to the Nuclear Regulatory Commission for a non-site-specific interim storage facility to maintain a readiness capability should an interim storage site be designated.
- Carry on collaboration with the nuclear utilities and other Program stakeholders to resolve issues and to develop the management and logistical capability in the private sector to address the Department's 1998 waste acceptance obligation.

The fourth measure "Issue a final rule to amend the Department's siting guidelines (10 CFR Part 960) to support a more efficient process for evaluating the suitability of the Yucca Mountain site, as outlined in the revised draft Program Plan," was deferred. The public comment period on the draft revised siting guidelines was extended three times as a result of intense and widespread interest in the guidelines. Issuance of the final rule is anticipated in FY 1998, following evaluation of the numerous public comments received.

The fifth measure "Issue Notice of Final Policy and Procedures pursuant to Section 180 (c) of the NWPA, as amended, which provides for technical and financial assistance to States and Indian Tribes for training public safety officials through whose jurisdictions spent nuclear fuel and high-level waste would be transported, in preparation for an orderly transportation activity," was partially completed. A Notice of Policy and Procedures was issued in July 1997, but OCRWM intends to issue a revised Notice of Policy and Procedures in FY 1998 to address the numerous comments received in response to the original Notice.

Fiscal Year 1998 Technical Performance Measures

- Completing the viability assessment analyses for licensing and constructing a geologic repository at the Yucca Mountain site in FY 1998. The assessment will consist of four key components:

- A design and operational concept of the repository;
 - An assessment of the performance of that concept in the geologic setting;
 - A plan and cost estimate to construct and operate the repository; and
 - A plan and an estimate of the costs to complete a license application.
- Completing, in FY 1998, generic, non-site-specific interim storage facility work and addressing long lead-time issues related to storage of waste including design, engineering, and safety analyses.
 - Developing, in FY 1998, a market-driven approach that uses private sector management and operational capabilities to provide waste acceptance and transportation services. Issuing a revised draft request for proposals.
 - Completing, in FY 1998, a revised Policy and Procedure for Implementation of Section 180(c) of the Nuclear Waste Policy Act.

FY 1997 Financial Performance

Program funding comes from the Nuclear Waste Fund (NWF) and the Defense Nuclear Waste Disposal appropriation (DNWDA). The NWF consists of fees paid by the owners and generators of spent nuclear fuel from civilian reactors, in accordance with provisions of their contracts with the Department of Energy (DOE) for disposal services. NWF assets in excess of those appropriated to pay program costs are invested in U.S. Treasury securities. The DNWDA was established by the Congress to fund the cost of disposal of high-level radioactive waste resulting from atomic energy defense activities. As of September 30, 1997, cumulative accrued revenue from fees, including the DNWDA, totaled approximately \$10.755 billion, and cumulative interest earnings and other accrued revenue totaled approximately \$5.1 billion. Cumulative expenditures from appropriations for the program, the Nuclear Regulatory Commission, the Office of the Nuclear Waste Negotiator, and the Nuclear Waste Technical Review Board, totaled approximately \$5.6 billion.

As of September 30, 1997, the U.S. Treasury securities held by the NWF had a market value of \$6.947 billion. The net income from investments for fiscal year 1997 was \$425.5 million, including \$420 million in interest earnings and \$5.5 million in net gains on sale of securities. Over the last year, based on market value, OCRWM's NWF investments returned 10.05 percent compared to 7.75 percent for the average intermediate-term Treasury mutual fund.

OCRWM's primary financial performance goal is to ensure that future spending needs can be met. Therefore, OCRWM has adopted the asset-liability matching approach used by pension funds and insurance companies to ensure that long-term needs will be met. By matching investments to anticipated spending needs, OCRWM reduces the risk that changes in interest rates will adversely affect the value of its investments, ensures that identified needs will be met, and makes investments at the most favorable rates currently available. In Fiscal Year 1997, OCRWM executed a memorandum of understanding with the U.S. Department of Treasury that establishes a process for the purchase of zero-coupon bonds by OCRWM, effectively extending the ability to match spending needs 30 years into the future.

FY 1998 Financial Performance Measure

- Increase from 6 to at least 12 the number of years in the 2004 - 2028 period, for which invested Program assets match anticipated Program liabilities.



2001 M. Street, N.W.
Washington, DC 20036

Independent Auditors' Report on Financial Statements

United States Department of Energy
Office of Civilian Radioactive Waste Management:

We have audited the accompanying statements of financial position of the Office of Civilian Radioactive Waste Management (OCRWM) as of September 30, 1997 and 1996, and the related statements of operations and cash flows for the years then ended and cumulatively from inception (January 7, 1983) to September 30, 1997. These financial statements are the responsibility of OCRWM's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget Bulletin 93-06, *Audit Requirements for Federal Financial Statements*, except for those portions of the Bulletin that relate to the Federal Financial Management Improvement Act (FFMIA) of 1996. The Department of Energy Office of Inspector General is responsible for determining compliance with FFMIA. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in note 2, these financial statements were prepared in conformity with the hierarchy of accounting principles and standards approved by the principals of the Federal Accounting Standards Advisory Board. This hierarchy is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Office of Civilian Radioactive Waste Management as of September 30, 1997 and 1996, and the results of its operations and its cash flows for the years then ended and cumulatively from inception (January 7, 1983) to September 30, 1997, in conformity with the basis of accounting described in note 2.

In accordance with *Government Auditing Standards*, we have also issued reports dated January 2, 1998 on our consideration of the OCRWM's internal controls over financial reporting and on its compliance with laws and regulations.



Our audits were made for the purpose of forming an opinion on OCRWM's financial statements, taken as a whole. The information presented in management's Overview is not a required part of the basic financial statements but is supplementary information required by Office of Management and Budget Bulletin Nos. 94-01 and 97-01, *Form and Content of Agency Financial Statements*. We considered whether this information is materially inconsistent with the principal financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion on it. The performance information included in the Overview is addressed in our auditors' report on the internal control structure over financial reporting in accordance with OMB Bulletin 93-06.

As discussed in note 2 to the financial statements, OCRWM implemented Statement of Federal Financial Accounting Standards No. 6, *Accounting for Property, Plant, and Equipment*, effective October 1, 1996.

As discussed in note 10 to the financial statements, OCRWM implemented Statement of Federal Financial Accounting Standards No. 5, *Accounting for Liabilities of the Federal Government*, effective October 1, 1996.

This report is intended for the information of the management of OCRWM and the United States Department of Energy. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

KPMG Peat Marwick LLP

January 2, 1998, except as to note 12,
which is as of January 14, 1998

Appendix A — Financial Statements

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT
NUCLEAR WASTE FUND**

Statements of Financial Position

September 30, 1997 and 1996

(Dollars in thousands)

Assets	1997	1996
Entity assets:		
Intragovernmental assets, current:		
Fund balance with Treasury	\$ 112	148
Investments (note 3)	6,947,353	5,897,756
Current portion of accounts receivable:		
Receivable from Department of Energy (notes 2 and 11)	235,300	216,312
kwh fees (note 4)	9,847	10,314
Accrued investment interest (note 3)	92,412	103,071
Governmental assets, current:		
Current portion of accounts receivable from utilities (note 4):		
kwh fees	135,814	139,676
Advances and prepayments	1,225	675
Other governmental	41	80
Intragovernmental assets, long-term:		
Long-term portion of accounts receivable from Department of Energy (notes 2 and 11)	803,455	871,000
Governmental assets, long-term:		
Long-term portion of accounts receivable (note 4):		
One-time spent fuel fees	880,489	880,462
Interest on one-time spent fuel fees	1,299,740	1,189,144
Capital equipment, net (note 6)	32,755	51,092
Total assets	\$ 10,438,543	9,359,730
Liabilities and Net Position		
Liabilities covered by budgetary resources:		
Intragovernmental liabilities, current:		
Accounts payable	\$ 3,232	3,498
Other funded liabilities	226	208
Governmental liabilities, current:		
Accounts payable	102	8,125
Other governmental:		
Accrued payroll and benefits	3,616	4,812
Other	40,163	26,543
Intragovernmental liabilities, long-term:		
Deferred fees revenue	1,173,799	1,227,128
Governmental liabilities, long-term:		
Deferred fees revenue	5,714,118	5,231,694
Deferred investment revenue	3,151,172	2,725,690
Contract holdback	442	460
Total liabilities covered by budgetary resources	10,086,870	9,228,158
Liabilities not covered by budgetary resources:		
Governmental liabilities:		
Accrued leave	1,460	1,539
Other liabilities	8,908	11,627
Total liabilities not covered by budgetary resources	10,368	13,166
Total liabilities	10,097,238	9,241,324
Net position (note 7):		
Unexpended appropriations (note 7)	198,194	155,977
Invested capital (note 7)	32,755	51,092
Future funding requirements (note 7)	(9,607)	(12,992)
Total net position before unrealized gain (loss)	221,342	194,077
Unrealized gain (loss) on investments available for sale	119,963	(75,671)
Total net position	341,305	118,406
Commitments and contingencies (notes 4, 10, 12, 13, and 15)		
Total liabilities and net position	\$ 10,438,543	9,359,730

The accompanying notes are an integral part of these statements.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT
NUCLEAR WASTE FUND**

Statements of Operations

September 30, 1997 and 1996
and cumulatively from January 7, 1983, date of inception, to September 30, 1997

(Dollars in thousands)

	1997	1996	Cumulative
Revenue:			
Revenue from fees (note 4):			
One-time spent fuel fees:			
Public	\$ 27	(24)	2,174,903
Intragovernmental	—	—	162,098
kwh fees:			
Public	555,209	603,816	6,935,910
Intragovernmental	39,446	31,884	240,419
Defense high-level waste fees, Intragovernmental (note 2)	74,852	84,400	1,242,116
Interest on one-time spent fuel fees, public (note 4)	110,596	106,144	1,328,697
Interest, intragovernmental:			
Income on investments	420,274	375,519	3,032,838
Defense high-level waste fees (note 2)	47,603	52,000	495,681
Other revenue (note 5)	6,791	33,519	245,134
Total revenue and other financing sources	1,254,798	1,287,258	15,857,796
Less change in deferred revenue	854,577	869,094	10,039,089
Excess of revenue and financing sources over change in deferred revenue	400,221	418,164	5,818,707
Expenses (note 14):			
Program expenses:			
First repository	270,723	252,750	3,777,067
Second repository	(12)	20	108,89
Monitored retrievable storage	16,825	29,496	348,177
Program support	57,793	65,547	1,039,865
Transfer appropriations (note 9)	13,531	13,461	176,849
Interest (notes 2 and 5)	—	1,023	132,415
Total expenses	358,860	362,297	5,583,269
Excess of revenue and other financing sources over expenses and change in deferred revenue before cumulative effect of change in accounting principle	41,361	55,867	235,438
Cumulative effect of changing capitalization policy	(14,096)	—	(14,096)
Excess of revenue and other financing sources over expenses and change in deferred revenue	27,265	55,867	221,342
Net position, beginning of year	118,406	277,342	—
Change in unrealized gain (loss) on investments available for sale	195,634	(214,803)	119,963
Excess of revenue and other financing sources over expenses and change in deferred revenue	27,265	55,867	221,342
Net position, end of year	\$ 341,305	118,406	341,305

The accompanying notes are an integral part of these statements.

Appendix A — Financial Statements

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT
NUCLEAR WASTE FUND**

Statements of Cash Flows

September 30, 1997 and 1996
and cumulatively from January 7, 1983, date of inception, to September 30, 1997

(Dollars in thousands)

	1997	1996	Cumulative
Cash flows from operating activities:			
Excess of revenue and other financing sources over expenses and change in deferred revenue before cumulative effect of accounting change	\$ 41,361	55,867	235,438
Adjustments affecting cash flows:			
Increase in accounts receivable	(59,003)	(90,381)	(3,365,911)
(Increase) decrease in other assets	11,414	1,971	(92,411)
Increase (decrease) in accounts payable	(8,289)	3,707	3,334
Increase (decrease) in other liabilities	9,626	(7,850)	41,579
Increase in deferred revenue	854,577	869,094	10,039,089
Depreciation expense	17,130	8,754	86,850
Amortization of premiums and accretion of discounts on investments	4,100	46,406	502,781
Net gain on sale of investments	(5,561)	(33,519)	(241,593)
Cumulative effect of accounting change	(14,096)	—	(14,096)
Nonfund adjustments	2,678	(1,096)	45,644
Net cash provided by operating activities	853,937	852,953	7,240,704
Cash flows from investing activities:			
Proceeds from sales and maturities of investments	1,838,240	1,368,949	10,574,774
Purchases of investments	(2,690,742)	(2,210,443)	(17,663,395)
Purchases of capital equipment	(1,471)	(2,365)	(151,971)
Net cash used in investing activities	(853,973)	(843,859)	(7,240,592)
Cash flows from financing activities:			
Borrowings from U.S. Treasury	—	—	264,964
Repayments on loans from U.S. Treasury	—	—	(264,964)
Borrowings from DOE for capital equipment	—	—	9,739
Repayments on loans from DOE for capital equipment	—	—	(9,739)
Net cash provided by financing activities	—	—	—
Net cash provided by (used in) operating, investing, and financing activities	(36)	9,094	112
Fund balances with U.S. Treasury, beginning	148	(8,946)	—
Fund balances with U.S. Treasury, ending	\$ 112	148	112

The accompanying notes are an integral part of these statements.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT
NUCLEAR WASTE FUND**

Notes to Financial Statements

September 30, 1997 and 1996

(Dollars in thousands unless otherwise noted)

(1) Legislative Background

The Nuclear Waste Policy Act (NWPA) was signed into law on January 7, 1983. The NWPA establishes a framework for the financing, siting, licensing, operating and decommissioning of one or more mined geologic repositories for the Nation's spent nuclear fuel and high-level radioactive waste which is to be carried out by the Department of Energy's (DOE) Office of Civilian Radioactive Waste Management (OCRWM). In addition, the NWPA contains other provisions including:

Assigning responsibility for the full payment of disposal cost to the owners and generators of high-level waste and spent nuclear fuel and, accordingly, creating a special Nuclear Waste Fund (NWF) within the Treasury of the United States.

Providing for contracts between the DOE and the owners and generators of spent nuclear fuel and high-level radioactive waste pursuant to which DOE is to take title to the spent nuclear fuel or high-level radioactive waste as expeditiously as possible, following commencement of repository operations and, in return for payment of fees established by the NWPA, to begin disposal of the spent nuclear fuel or high-level radioactive waste not later than January 31, 1998.

Requiring evaluation of the use of civilian disposal capacity for the disposal of high-level radioactive waste resulting from atomic energy defense activities (defense waste). In April 1985, the President notified DOE of his determination that a separate defense waste repository was not necessary and directed DOE to proceed with arrangements for disposal of such waste. Fees, equivalent to those paid by commercial owners, must be paid for this service by the Federal government.

On December 22, 1987, the President signed into law the Budget Reconciliation Act Subtitle A of Title V of which contained amendments to the NWPA of 1982. The legislation directed DOE to characterize only the Yucca Mountain site in Nevada as a candidate site for the first repository.

The legislation also provided for the termination of site-specific activities at all candidate sites other than the Yucca Mountain site, within 90 days of enactment, and for phasing out, not later than 6 months after enactment, all research programs in existence designed to evaluate the suitability of crystalline rock as a potential repository host medium. In the event that the Yucca Mountain site proves unsuitable for use as a repository, the legislation requires DOE to terminate site-specific activities and report to Congress.

Further, the legislation authorized DOE to pay interest on overpayments of kilowatt hour (kWh) fees consistent with the December 5, 1985 ruling of the United States Court of Appeals as discussed in note 4. Interest on these overpayments of kWh fees was fully paid or credited as of September 30, 1990.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT
NUCLEAR WASTE FUND**

Notes to Financial Statements

(Dollars in thousands unless otherwise noted)

(1) **Continued**

Additionally, the legislation annulled and revoked DOE's Monitored Retrievable Storage (MRS) proposal, submitted to Congress on March 31, 1987, to construct an MRS facility in Oak Ridge, Tennessee. However, the legislation authorized DOE to site, construct and operate one MRS facility subject to certain conditions.

Although the Amendments Act prohibits the selection of an MRS site through a DOE-directed site-survey process until the repository site is recommended to the President, it allowed for expedited siting to proceed via a Nuclear Waste Negotiator, authorized to negotiate a proposed agreement with a State or Indian Tribe that would agree to host a repository or MRS facility. The Negotiator was to submit to Congress proposed agreements.

In fiscal year 1994, the Energy and Water Development Act provided no funds for grants to potential MRS hosts. The Negotiator continued his efforts in fiscal year 1994 but did not identify a volunteer host. The Office of the Nuclear Waste Negotiator expired in January 1995.

(2) **Significant Accounting Policies**

Basis of Presentation – These financial statements include all activity related to the NWF and the Defense Nuclear Waste Disposal appropriation used for nuclear waste disposal activities.

Basis of Accounting – OCRWM's financial statements are prepared using the accrual method of accounting. OCRWM also uses budgetary accounting to facilitate compliance with legal constraints and to monitor its budget authority.

Until a sufficiently comprehensive set of accounting standards which will constitute "generally accepted accounting principles" for the Federal government, are agreed to and published by the Joint Financial Management Improvement Program (JFMIP) principals, agencies are required to prepare financial statements in accordance with the following hierarchy, which is a comprehensive basis of accounting:

Individual standards agreed to and published by the Joint Financial Management Improvement Program (JFMIP) Principals, based upon recommendations from the Federal Accounting Standards Advisory Board (FASAB).

Form and content requirements included in Office of Management and Budget (OMB) Bulletin 94-01, dated November 6, 1993, and subsequent issuances.

Accounting standards contained in agency accounting policy, procedures manuals, and/or related guidance as of March 29, 1991, so long as they are prevalent practices.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT
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Notes to Financial Statements

(Dollars in thousands unless otherwise noted)

(2) Continued

Accounting principles published by authoritative standard setting bodies and other authoritative sources (1) in the absence of other guidance in the first three parts of this hierarchy, and (2) if the use of such accounting standards improves the meaningfulness of the financial statements.

Revenue Recognition – A one-time fee (see note 4) was recorded by the NWF as of April 7, 1983, for spent nuclear fuel generated prior to that date. Fees based upon kWh of electricity generated by civilian nuclear reactors on or after April 7, 1983 are accrued as earned. All fees are recognized as revenue to the extent of expenses incurred. Revenue in excess of current expenses and unexpended appropriations is deferred; deferred revenue is not segregated between Federal and nonfederal activities. The life cycle of the program is expected to extend over a period of nearly 100 years.

OCRWM's most recent Total-System Life Cycle Cost (TSLCC) analysis, issued in September 1995, estimated the cost of a surrogate single-repository system without interim storage to be \$33,100,000. Adjusted for inflation through September 30, 1997, this amount is approximately \$35,745,000. Yucca Mountain, Nevada, was assumed as the location for the repository since it is the only site that the Department is authorized by law to characterize, but this does not constitute a predecision that Yucca Mountain is an acceptable site. Additional scenarios including a two-repository system with interim storage were not costed since the Department did not have current cost information or designs for a second repository and interim storage.

To estimate the share of the TSLCC that should be allocated to the disposal of defense high-level radioactive waste in the civilian repository, the methodology announced by the Department in the *Federal Register* in August 1987 was used. The September 1995 TSLCC analysis estimated the defense waste share of total system costs to be \$6,432,000. That amount adjusted for inflation through September 30, 1997, is approximately \$6,947,000.

The September 1995 TSLCC estimates did not reflect the Civilian Radioactive Waste Management Program as currently envisioned, nor do they address the amount and types of defense waste now expected to be disposed of in a civilian repository. OCRWM intends to develop a new TSLCC analysis in 1998.

To date, OCRWM has not entered into an agreement with the Office of Environmental Management for payment of fees and interest to the NWF to pay DOE's defense high-level waste share of costs. OCRWM has estimated that approximately \$1,738,000 of costs incurred to date by the NWF, including interest of \$496,000, assessed from enactment of the NWPA (January 1983), are attributable to defense high-level radioactive waste based on the methodology previously published. Of this total amount, DOE has paid or funded \$698,000 as of September 30, 1997. (See also note 11.) Total revenue from defense high-level radioactive waste fees and interest was \$123,000 and \$136,000 in 1997 and 1996, respectively.

**UNITED STATES DEPARTMENT OF ENERGY
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NUCLEAR WASTE FUND**

Notes to Financial Statements

(Dollars in thousands unless otherwise noted)

(2) Continued

For fiscal years 1997 and 1996, Congress appropriated \$200,000 and \$248,400, respectively, from the Defense Nuclear Waste Disposal appropriation to be used for nuclear waste disposal activities. Of this \$248,400, \$85,000 was restricted to obligation and expenditure on an interim storage facility. None of this restricted portion was used in Fiscal Year 1997 or 1996, as statutory authority for an interim storage facility was not enacted. As of September 30, 1997, OCRWM had used the remaining Fiscal Year 1996 appropriation of \$16,312, and \$154,700 of the current year appropriation. Also, at September 30, 1997, OCRWM had obligated \$45,300 of the Fiscal Year 1997 appropriation for payment in 1998.

For Fiscal Year 1998, Congress has appropriated \$190,000 from the Defense Nuclear Waste Disposal appropriation to be used for nuclear waste disposal activities.

Investments – Investments, which consist of U.S. Treasury securities, are classified as available-for-sale and are reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of net position. OCRWM uses the effective interest rate method in determining book value of NWF investments.

Capital Equipment – Capital equipment is depreciated on a straight-line basis over the estimated useful lives of the assets which range from 5 to 30 years. Maintenance costs are borne by OCRWM for equipment either on loan from or shared with other programs.

In 1997, OCRWM implemented Statement of Federal Financial Accounting Standards No. 6, *Accounting for Property, Plant, and Equipment*, effective October 1, 1996. Under this statement, OCRWM raised the capitalization threshold from \$5 to \$25. The threshold applies to assets with a useful life greater than two years.

Accounts Receivable – Payment of accounts receivable will not be complete until OCRWM starts accepting waste. An allowance for doubtful accounts related to one time spent fuel fees has not been recorded as of September 30, 1997 and 1996, as OCRWM is not obligated to accept waste without payment of fees (the utilities have an inherent incentive to pay to these fees).

Liabilities – Liabilities represent the amount of monies or other resources that are likely to be paid by OCRWM as the result of a transaction or event that has already occurred. However, no liability can be paid by OCRWM absent an appropriation. Liabilities for which an appropriation has not been enacted are therefore classified as liabilities not covered by budgetary resources and there is no certainty that the appropriation will be enacted. Also, liabilities of OCRWM arising from other than contracts can be abrogated by the government, acting in its sovereign capacity.

**UNITED STATES DEPARTMENT OF ENERGY
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NUCLEAR WASTE FUND**

Notes to Financial Statements

(Dollars in thousands unless otherwise noted)

(2) Continued

Accrued Annual Leave – To the extent that current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources.

Tax Status – OCRWM, as a part of the Department of Energy which is a Federal agency, is not subject to Federal, State, or local income taxes.

Presentation of Prior Year's Financial Statements – Certain 1996 amounts have been reclassified to conform with the 1997 presentation.

(3) Investments

For the years ended September 30, 1997 and 1996, OCRWM received proceeds of \$1,838,240 and \$1,368,949, respectively, from the sale of securities. The realized gain on the sale using the specific identification method for the years ended September 30, 1997 and 1996 was \$5,561 and \$33,519, respectively. From September 30, 1996 to 1997, the change in net unrealized holding gain (loss) on available-for-sale securities included in net position was \$195,634.

Accrued interest receivable on investments as of September 30, 1997 and 1996, totaled \$92,412 and \$103,071, respectively.

The gross unrealized gain and (loss) on sale of securities are \$174,319 and (\$54,356), respectively for the year ending September 30, 1997.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT
NUCLEAR WASTE FUND**

Notes to Financial Statements

(Dollars in thousands unless otherwise noted)

(3) Continued

Investments consisting of U.S. Treasury securities held as of September 30 of each year consisted of the following:

	1997		1996	
	Cost	Amortized (premium) discount, net	Investments, net	Investments at fair value
Intragovernmental securities available for sale:				
Marketable	\$ 1,790,210	(6,401)	1,783,809	544,094
Due after 1 year but within 5 years	1,238,593	(57,153)	1,181,440	1,325,376
Due after 5 years but within 10 years	816,146	(48,791)	767,355	1,227,210
Due after 10 years	3,121,278	(26,492)	3,094,786	2,801,076
	\$ 6,966,227	(138,837)	6,827,390	5,897,756

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT
NUCLEAR WASTE FUND**

Notes to Financial Statements

(Dollars in thousands unless otherwise noted)

(4) Receivables Due from Utilities

Owners and generators of civilian spent nuclear fuel and high-level radioactive waste have entered into contracts with DOE for disposal services and for payment of fees to the NWF.

The NWPA specifies two types of fees to be paid to the NWF for disposal services: (a) a one-time charge per kilogram of heavy metal in solidified high-level waste or spent nuclear fuel existing prior to April 7, 1983; and (b) a one mil per kWh fee on all net electricity generated and sold by civilian nuclear power reactors on or after April 7, 1983. The Secretary shall annually review the adequacy of the fees established. In the event the Secretary determines either insufficient or excess revenue is being collected, the Secretary shall propose an adjustment to the fee to ensure full cost recovery. The contracts between DOE and the owners and generators of the waste provide three options for payment of the one-time spent fuel fee, one of which must have been selected by June 30, 1985, or within two years of contract execution. The options were:

Payment of the amount due, plus interest earned from April 7, 1983, in 40 quarterly installments, with the final payment due on or before the first scheduled delivery of spent fuel to DOE;

Payment of the amount due, plus interest from April 7, 1983, in a single payment, any time prior to the first delivery of spent fuel to DOE;

Payment of the amount due, any time prior to June 30, 1985, or two years after contract execution, in the form of a single payment, with no interest due.

Under options (1) and (2), interest accrues from April 7, 1983, to date of first payment, at the 13-week Treasury bill rate compounded quarterly. Under option (1), beginning with the first payment, interest is calculated at the 10-year Treasury note rate in effect at the time.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT
NUCLEAR WASTE FUND**

Notes to Financial Statements

(Dollars in thousands unless otherwise noted)

(4) Continued

During 1997 and 1996, payments or adjustments of one-time spent fuel fees by owners and generators of civilian high-level waste and spent nuclear fuel consisted of:

	1997		1996	
	Payments	Adjustments	Payments	Adjustments
Option (1)	\$ —		—	—
Option (2)		27	667	—
Option (3)	—		—	(24)
	\$ —	27	667	(24)

Public and intragovernmental receivables from utilities at September 30 of each year were as follows:

	1997	1996
Current portion of accounts receivable:		
Kilowatt hour fees		
Governmental	\$ 135,814	139,676
Intragovernmental	9,847	10,314
Total current portion of accounts receivable	<u>145,661</u>	<u>149,990</u>
Long-term portion of accounts receivable:		
Governmental one-time spent fuel fees:		
Option (1)	143,531	143,531
Option (2)	736,958	736,931
	<u>880,498</u>	<u>880,462</u>
Governmental interest on one-time spent fuel fees:		
Option (1)	212,642	194,590
Option (2)	1,087,098	994,554
	<u>1,299,740</u>	<u>1,189,144</u>
Total long-term accounts receivable from utilities	<u>2,180,229</u>	<u>2,069,606</u>
Total accounts receivable from utilities	\$ <u>2,325,890</u>	<u>2,219,596</u>

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT
NUCLEAR WASTE FUND**

Notes to Financial Statements

(Dollars in thousands unless otherwise noted)

(5) Other Revenue

The NWF's other revenue for fiscal year 1997 and 1996 consisted of the following:

	1997	1996
Gain (loss) on sale of investments (note 3)	\$ 5,561	33,519
Imputed financing source (note 10)	1,230	—
Total expenses	\$ 6,791	33,519

(6) Capital Equipment, Net

Capital equipment and related accumulated depreciation consisted of the following at September 30, 1997 and 1996:

	1997	1996
Capital equipment	\$ 80,212	100,323
Work-in-progress	4,628	90
	84,840	100,413
Less accumulated depreciation	(52,085)	(49,321)
Net book value	\$ 32,755	51,092

Effective October 1, 1996, OCRWM, in accordance with DOE guidance, changed its policy for the capitalization of equipment, increasing the threshold for capitalization from \$5 to \$25. The cumulative effect of this change in accounting principle resulted in a charge to operations of \$14,096 as of October 1, 1996.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT
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Notes to Financial Statements

(Dollars in thousands unless otherwise noted)

(7) Net Position

	1997		1996		Total
	Trust fund	Appropriated fund	Trust fund	Appropriated fund	
Unexpended appropriations:					
Unobligated, available	\$ 22,013	63	19,106	3,394	22,500
Unobligated, unavailable	-	85,000	-	85,000	85,000
Undelivered orders	68,956	22,162	41,017	7,460	48,477
Invested capital	32,755	-	51,092	-	51,092
Future funding requirements	(9,607)	-	(12,992)	-	(12,992)
Total net position before unrealized gain (loss)	114,117	107,225	98,223	95,854	194,077
Unrealized gain (loss) on investments available for sale	119,963	-	(75,671)	-	(75,671)
Total net position	\$ 234,080	107,225	22,552	95,854	118,406

Trust fund activity represents net position activity in the NWF while appropriated funds activity represents net position activity in the Defense Nuclear Waste Disposal appropriation.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT
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Notes to Financial Statements

(Dollars in thousands unless otherwise noted)

(8) Financing

The NWPA provides that the NWF consist of:

- unexpended balances available on the date of enactment for functions or activities incident to the disposal of civilian high-level radioactive waste or civilian spent nuclear fuel;
- appropriations made by Congress;
- receipt of fees; and
- investment income from authorized investments.

Expenditures may be made from the NWF subject to appropriation. Investments may be made in U.S. obligations from funds in excess of current needs. If, at any time, monies available in the NWF are insufficient to discharge responsibilities under the NWPA, borrowings may be made from the U.S. Treasury. The NWPA limits the NWF from incurring expenditures, entering into contracts and obligating amounts to be expended, except as provided in advance by appropriation acts.

(9) Transfer Appropriations

During 1997 and 1996, Congress authorized certain funds to be transferred directly from the NWF to various entities to pay for necessary expenses of the NWF. Amounts transferred consisted of:

	1997	1996	Cumulative
Nuclear Regulatory Commission	\$ 11,000	11,000	149,583
Nuclear Waste Technical Review Board	2,531	2,531	20,127
Office of the Nuclear Waste Negotiator	—	(70)	7,139
	\$ 13,531	13,461	176,849

The Nuclear Waste Technical Review Board (Board) and the Office of the Nuclear Waste Negotiator (Negotiator) were established under the Amendments Act. The Board, an independent establishment within the executive branch of the U.S. government, was established to evaluate the technical and scientific validity of activities undertaken by the Secretary, including site characterization activities and activities relating to the packaging or transportation of high-level radioactive waste or spent nuclear fuel. The Negotiator, who was appointed by the President and approved by the Senate, was to seek a State or Indian Tribe willing to host a repository or MRS facility, at a technically qualified site, on reasonable terms. The Office of the Nuclear Waste Negotiator

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT
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Notes to Financial Statements

(Dollars in thousands unless otherwise noted)

(9) Continued

expired in January 1995 and \$70 of the fiscal year 1995 appropriation was transferred back to the Nuclear Waste Fund in fiscal year 1996.

(10) Pension Plan

DOE employees working for OCRWM are covered by the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). As required by law, employees make contributions to the plans based on a percentage of their salaries with an amount contributed by OCRWM in accordance with the required retirement system regulations. Data regarding the CSRS and the FERS actuarial present value of accumulated benefits, assets available for benefits, and unfunded pension liability are not available to individual departments and agencies and therefore are not disclosed by OCRWM. As such, reporting is the responsibility of the U.S. Office of Personnel Management.

In 1997, OCRWM implemented Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, effective October 1, 1996. The provisions of SFFAS No. 5 require an employer entity to recognize an expense for its employees' retirement benefits equal to the service costs for these employees for the year based on the plans' actuarial cost methods and assumptions. The difference between the retirement benefit expense and contributions made by the entity is reported as an imputed financing source as these costs will ultimately be funded by the Office of Personnel Management (OPM). As a result, OCRWM recognized total retirement expense of \$2,587 as of September 30, 1997, and an imputed financing source of \$1,230 to reflect the portion of 1997 retirement expense to be paid by OPM.

(11) Transactions With Other Government Agencies

The NWPA established the Office of Civilian Radioactive Waste Management (OCRWM) within DOE to carry out the provisions of the NWPA and created a separate fund in the Treasury of the United States. All of the investment and borrowing powers of OCRWM are limited to transactions with the U.S. Treasury. In discharging its obligations under the NWPA, DOE contracts for services with numerous contractors including other Federal government agencies. Further, significant administrative services are provided by DOE.

As of September 30, 1997 and 1996, OCRWM owed other government agencies \$2,248 and \$2,087, respectively, for services and costs provided to OCRWM. For the years ended September 30, 1997 and 1996, OCRWM had incurred costs of \$16,484 and \$16,527, respectively, for services and costs provided by other government agencies.

As discussed in note 2, OCRWM is owed \$1,038,755 as of September 30, 1997 from DOE for the disposal of defense high-level waste in civilian repositories. This receivable is comprised of a current portion of \$235,300 and long-term portion of \$803,455.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT
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Notes to Financial Statements

(Dollars in thousands unless otherwise noted)

(12) Contingencies

DOE is currently involved in various litigation arising from its activities. Although certain proceedings are at a preliminary stage, management does not expect that resolution of this litigation will have a material effect on the financial position of the NWF.

The NWPA provides for Payments-Equal-To-Taxes (PETT) each fiscal year to the State of Nevada and any affected unit of local government equal to the amount they would receive if authorized to tax Federal site characterization activities at a candidate repository site (prior to the 1987 amendments, the NWPA provided for payments-equal-taxes to eligible States and affected units of local governments). On August 27, 1991, DOE published a Notice of Interpretation and Procedures in the *Federal Register* outlining the implementation of Sections 116(c)(3)(A) and 118(b) (4) of the NWPA.

During fiscal year 1994, DOE entered into an agreement with Nye County, Nevada, for \$37,900 of PETT, covering the period from May 1986 through June 1999. DOE has made payments totaling \$26,600 through September 30, 1997, and has accrued an additional \$5,469 attributable to the tax period ending as of September 30, 1997.

In FY 1992, DOE made a PETT payment of \$771 to Benton County, Washington. In November 1993, Benton County, Washington, filed an appeal increasing its request to \$45,752. The Office of Hearings and Appeals issued a Supplemental Order adopting a Joint Stipulation filed on April 30, 1997, by Benton County, Washington, and the Department of Energy, through OCRWM. The Stipulation embodied the parties' agreement that the Department's total liability for Benton County PETT is \$5,334 to be paid in two installments. The first installment of \$2,253 was paid in May 1997. The second installment of \$3,000 plus interest amounting to \$82 was paid to Benton County, Washington, in October 1997.

In addition, in February 1993, the State of Washington filed a PETT claim which included interest through 1992 in the amount of \$9,978 based on its state and local use tax and its business and occupation tax. By agreement of the parties, the State of Washington PETT claim was held in abeyance pending resolution of the Benton County PETT claim. The Benton County claim was settled in FY 1997, pursuant to a joint stipulation between the parties. The Department is awaiting additional data before further evaluating the State of Washington's claim. It is not expected that this matter will have a significant impact on OCRWM.

The State of Nevada filed a petition for review on September 23, 1996, in the U.S. Court of Appeals for the Ninth Circuit requesting that the Secretary of Energy be ordered to make grants from the Nuclear Waste Fund at historical levels to the State and affected units of local government for the purpose of participating in activities under sections 116 and 117 of the NWPA for fiscal year 1996. Historically, the State of Nevada has received between \$5 million and \$5.5 million yearly in oversight funds, which represents approximately 1.5 percent of moneys appropriated for site characterization activities at Yucca Mountain. In its amended

**UNITED STATES DEPARTMENT OF ENERGY
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Notes to Financial Statements

(Dollars in thousands unless otherwise noted)

(12) Continued

opening brief, dated June 10, 1997, the State asserted that it was entitled to \$3.5 million in grants, as its “historical proportion,” and that the affected units of local government were entitled to a commensurate amount.

Oral argument in this case was held on December 11, 1997. On January 14, 1998, the Court denied the State of Nevada’s petition for review. There is a low probability of an impact on the NWF.

(13) DOE’s Waste Acceptance Obligation

DOE acknowledged that it would not have an operational high-level nuclear waste repository by the January 31, 1998 date specified in the NWPA of 1982, as amended. The Indiana Michigan Power Company and intervenors, other power companies and several states, filed petitions on May 26, 1995, challenging the Department’s interpretation of the Nuclear Waste Policy Act (NWPA) that it was not obligated to accept spent nuclear fuel and high-level radioactive waste by January 31, 1998, in the absence of a facility constructed and licensed under the Act.

On July 23, 1996, the U.S. Court of Appeals for the District of Columbia Circuit held that the NWPA created an unconditional obligation that the Department commence disposing of utilities’ spent nuclear fuel no later than January 31, 1998, in return for payment under the Standard Contract.

On January 31, 1997, thirty-six contract holders and thirty-three States filed petitions in Northern States Power Company, et al. v. U.S. Department of Energy, again in the U.S. Court of Appeals for the District of Columbia Circuit, for “enforcement” of the Indiana Michigan decision. They asserted that the anticipated inability of the Department to meet the January 31, 1998 deadline constituted an anticipatory breach of provisions of the NWPA and their contracts. They also contended that they should be entitled to suspend their payment of fees into the Fund and that these fees should be placed in escrow until the Department commences disposal pursuant to the Standard Contract.

On November 14, 1997, the U.S. Court of Appeals for the District of Columbia Circuit issued its decision in Northern Sates Power, concluding that the “remedial scheme of the Standard Contract offers a potentially adequate remedy” for the Department’s anticipated failure to meet the 1998 deadline and holding that the petitioners must pursue the remedies provided in the Standard Contract. However, in ordering the parties to proceed with contractual remedies, the Court specifically precluded the Department “from concluding that its delay was unavoidable on the ground that it has not yet prepared a permanent repository or that it has no authority to provide storage in the interim.” Article IX of the Standard Contract, entitled “Delays,” provides for an equitable adjustment of charges and schedules if a party’s delay is avoidable “to reflect any estimated additional costs incurred by the party not responsible for or contributing to the delay.”

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Notes to Financial Statements

(Dollars in thousands unless otherwise noted)

(13) Continued

On December 29, 1997, the Department filed a petition for rehearing and suggestion for rehearing en banc. The Court of Appeals has not acted on that petition and the ultimate outcome of this litigation is uncertain. If the Court of Appeals' decision stands, the NWF may be affected if contract holders pursue and receive equitable adjustments of their fees under the Standard Contract's Delays Clause, as the Court of Appeals appears to believe is appropriate. However, it is not possible at this time to reliably estimate the amount of such an impact, given the fact that no claims have yet been filed and that resolution of such claims will likely turn on highly fact-specific and individualized decisions about the costs incurred by each contract holder as a result of the delay. Moreover, if equitable adjustments of fees substantially impacted revenues to the Fund, the Department might be obligated, under the NWPA's "full cost recovery" provision, 42 U.S.C. 10222(a)(4), to propose off-setting fee adjustments. It is also possible that, whether or not the Court of Appeals' decision stands, contract holders will sue for breach of contract. However, it is not possible at this time to reliably estimate the nature or size of the claims that might be asserted, whether the contract holders will prevail, or whether any judgments that might be entered would be payable out of the "Judgment Fund", rather than the Nuclear Waste Fund.

(14) Expenses by Object Classification

The NWF's expenses by object classification for fiscal years 1997 and 1996 consisted of:

	1997	1996
Personal services and benefits	\$ 20,403	20,265
Contractual services	326,169	312,260
Other	12,853	15,228
Interest	—	1,023
Transfer appropriations (note 9)	13,531	13,461
Total expenses	\$ 372,956	362,297

(15) Additional Waste

In November 1993, DOE's Office of Environment, Safety and Health issued a report that identified additional waste owned by the Department, from both commercial and defense projects, that may require disposal in a civilian repository. OCRWM has been in the process of evaluating the additional liability to the Nuclear Waste Fund for disposal of these waste forms. The need to consider additional waste forms has raised new issues that complicate cost projections as the volume of wastes requiring disposal, and the corresponding cost of regulatory

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(Dollars in thousands unless otherwise noted)

(15) Continued

compliance, facility and equipment designs, and cost of operations are unknown at this time. The range of costs (\$200,000 to \$500,000) presented in the notes to OCRWM's financial statements as of September 30, 1995 are incomplete and have not been revised. Therefore, no amounts have been recorded in the accompanying financial statements as of September 30, 1997, because the amount of fees attributable to this waste is not reasonably able to be estimated at this time.

High-level radioactive waste owned by the State of New York and currently stored at the West Valley Demonstration Project site, is of a type that may be disposed of in a Federal repository if the State of New York has entered into a contractual agreement with DOE, similar to the provisions of 10 CFR Part 961. To date, the State of New York has not entered into such an agreement. If the methodology announced by DOE in the Federal Register in August 1987, for the calculation of the defense high-level waste share of program costs were used, the share of total-system costs allocated to the disposal of West Valley high-level waste would be approximately \$114 million. This amount has not been recorded in the financial statements as of September 30, 1997, because, at this time, DOE is not legally required to take title to or dispose of the West Valley high-level waste, nor is the State of New York required to enter into a disposal contract with DOE if it does not plan to dispose of the high-level waste in a Federal repository.



Peat Marwick LLP

2001 M. Street, N.W.
Washington, DC 20036

Independent Auditors' Report on Internal Controls Over Financial Reporting

Office of Civilian Radioactive Waste Management
United States Department of Energy:

We have audited the financial statements of the Office of Civilian Radioactive Waste Management (OCRWM) as of and for the year ended September 30, 1997, and have issued our report thereon dated January 2, 1998. We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements*.

The management of OCRWM is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of internal controls are to provide management with reasonable, but not absolute, assurance that transactions, including those relating to obligations and costs, are executed in compliance with applicable laws and regulations that could have a direct and material effect on the financial statements and any other laws and regulations that OMB or OCRWM's management have identified as being significant and for which compliance can be objectively measured and evaluated; funds, property, and other assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and properly recorded and accounted for to permit the preparation of reliable financial reports in conformity with applicable accounting principles described in note 2 to the financial statements and to maintain accountability over assets; and data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information. Because of inherent limitations in internal controls, fraud may nevertheless occur and not be detected. Also, projection of any evaluation of internal controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we considered OCRWM's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing an opinion on the financial statements, and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express such an opinion. With respect to internal controls, we obtained an understanding of the design of relevant policies and procedures, determined if they had been placed in operation, assessed control risk, and performed tests of internal controls.



Our evaluation of the controls for performance information was limited to those controls designed to ensure the existence and completeness of the information. With respect to the performance measure control objectives, we obtained an understanding of relevant internal control policies and procedures designed to permit the preparation of reliable and complete performance information, and we assessed control risk.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited, or to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal controls would not necessarily disclose all internal control matters that might be material weaknesses under standards established by the American Institute of Certified Public Accountants and OMB Bulletin No. 93-06. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving internal controls and their operation that we have reported to management of OCRWM in a separate letter.

This report is intended for the information of the management of OCRWM and the United States Department of Energy. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

January 2, 1998



2001 M. Street, N.W.
Washington, DC 20036

Independent Auditors' Report on Compliance with Laws and Regulations

Office of Civilian Radioactive Waste Management
United States Department of Energy:

We have audited the financial statements of the Office of Civilian Radioactive Waste Management (OCRWM) as of and for the year ended September 30, 1997, and have issued our report thereon dated January 2, 1998. We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements*, except for those portions of the Bulletin that relate to the Federal Financial Management Improvement Act (FFMIA) of 1996. The Department of Energy Office of Inspector General is responsible for determining compliance with FFMIA.

The management of OCRWM is responsible for complying with laws and regulations applicable to OCRWM. As part of obtaining reasonable assurance about whether OCRWM's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 93-06. However, providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit. Accordingly, we do not express such an opinion.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* and OMB Bulletin No. 93-06.

This report is intended for the information of the management of OCRWM and the United States Department of Energy. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

January 2, 1998

